In the Specification

Please replace the paragraph starting at line 3 on page 17 as follows:

Similar to the process as shown in Figure 4, the quantized transform coefficients 110 or c(i,j) are inverse quantized in the inverse quantization blocks 20 to obtain inverse quantized transform coefficients 120 or $d_1(i,j)$ and 120' or $d_2(i,j)$. Each of these coefficients $d_1(i,j)$ and $d_2(i,j)$ are scaled with $\alpha_1(t)$ and $\alpha_2(t)$, respectively, in blocks 22, 22' to become scaled coefficients 122, 122'. The resulting coefficients are summed by a summing device 24. The summing result $d_{12}(i,j)$ is denoted by reference numeral 124. Meanwhile, the predicted frames 136, or $R_1(x+\Delta x_1, y+\Delta y_1, t-1)$ and 136' or $R_2(x+\Delta x_2, y+\Delta y_2, t-1)$ are subjected to transform coding in the Transform blocks 38, 38'. Furthermore, using the motion-vectors of the first video-clip and the reconstructed frames of the second video-clip, a reference block 137' $R_2(x+\Delta x_1, y+\Delta y_1, t-1)$ is obtained through the Motion Compensation prediction block 36'. The reference block 137' is also subjected to transform coding by a transform block 39'. After the transform operations, transform coefficients 138, 138' and 139', respectively, of $R_1(x+\Delta x_1,$ $y+\Delta y_1, t-1$, $R_2(x+\Delta x_2, y+\Delta y_2, t-1)$ and $R_2(x+\Delta x_1, y+\Delta y_1, t-1)$ are scaled with $(\alpha_1(t-1) - \alpha_1(t))$, $\alpha_2(t-1)$, and $-\alpha_2(t)$, respectively. The scaled transform coefficients are then subtracted from $d_{12}(i,j)$ in the summing block 25. The final resulting coefficients 125 or e(i,j) are then quantized in the quantization block 26. Finally the quantized coefficients 126 are sent to a multiplexing unit 70 which performs entropy coding and multiplexing with other required information to produce a valid compressed video bitstream 170.